



SB & COMPANY, LLC
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Report of Independent Public Accountants

September 30, 2005

The Honorable Mayor, Aldermen, and Citizens of
The City of Annapolis, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Annapolis, Maryland (the City), as of June 30, 2005 and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements, schedules, and supplementary information are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The summarized comparative information as of June 30, 2004 and for the year then ended was derived from the City's 2004 financial statements before the restatement described in Note 18, which were audited by other auditors whose reported dated October 26, 2004, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Annapolis, Maryland, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustment described in Note 18 that was applied to restate the statement of net assets as of June 30, 2004. In our opinion, such adjustment is appropriate and has been properly applied.

The financial statements include summarized prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements as of June 30, 2004 and the year then ended, from which such summarized information was derived.



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In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and required supplemental schedules of funding progress for the pension plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Annapolis, Maryland's basic financial statements. The combining financial statements, schedules, and introductory and statistical sections, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report, as listed in the table of contents, have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

SB's Company, LLC